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E.O. 12958: DECL: 07/30/2017
TAGS: EMIN EINV BL
SUBJECT: MUTUN IRON MINE DEAL: JACKPOT OR JINXED?

REF: A. LA PAZ 1740
¶B. LA PAZ 1840

Classified By: Ambassador Philip Goldberg, reasons 1.4b,d

¶1. (C) On July 18 President Morales announced a contract with Jindal Steel and Power Ltd (India's third largest stainless steel producer) to develop the massive Mutun iron deposit, which straddles the border with Brazil. (Note: reportedly the contract allows Jindal to develop 50 percent of the Bolivian reserves, while keeping the other 50 percent "for the Bolivian people." End note.) The contact comes after more than a year of negotiations with Jindal and must still be submitted to Congress: President Morales and his administration are lobbying hard for accelerated congressional approval. The Morales administration is hailing this contract as a victory for Bolivia, focusing on the claimed USD2.1 billion dollar investment promise made by Jindal (which would make the project more than twice as expensive as Bolivia's largest current mining project, Apex Silver's USD800 million San Cristobal mine.) President Morales is also trumpeting the project's expected employment creation: 4,000 direct and over 12,000 indirect jobs. However, details of the contract are scarce and, depending on which minister is speaking, occasionally contradictory. Despite jubilant press releases, available information casts some doubts on the project.

Background on the Project

¶2. (C) Mutun is reportedly the world's largest iron ore deposit. Located in Santa Cruz Department near Puerto Suarez, it extends across the border into Brazil. It has estimated reserves of about 40 billion tons of iron. (Note: Mutun's ore is medium-grade and reserves are only estimated, not proven. The U.S. Geological Survey estimates the total

world reserves of iron at 230 billion. End note.) There has been little construction at the site, mostly because of its remoteness and lack of infrastructure. EBX, a Brazilian company, briefly had a project which was blocked by President Morales soon after he took office, supposedly due to environmental and licensing concerns. Bidding for the mine originally included Jindal Steel and Power Ltd, Rotterdam-based Mittal Steel, China's Shandong Luneng Hengyuan Trading Group Co Ltd, an Argentine joint venture, and the Brazil-based EBX Group.

Natural Gas Issues

¶3. (C) Most of the delays during the last year of negotiations between the Morales administration and Jindal have centered around the provision and price of natural gas for the project. The contract reportedly guarantees Jindal eight million cubic meters of natural gas per day at a fixed price of USD3.91 per million BTU (part of Jindal's USD2.1 billion investment in the project is a 450 MW electrical plant.) President Morales claims that the gas deal is positive for Bolivia because "Jindal will lose more than USD80 million a year on the deal." (Comment: An interesting insight into President Morales' view of win-win business deals. End comment.) However, there is an opportunity cost inherent in selling natural gas at USD3.91 per million BTU, when the gas could be sold to Brazil, for example, at the current estimated average contract price of USD4.1 per million BTU. Initial calculations suggest that the GOB has basically accepted an opportunity cost of USD55,000 per day under this agreement. More worrisome is the fact that the agreed quantity of gas constitutes one third of Bolivia's current gas exports to Brazil and a fifth of Bolivia's total gas production in 2005. Bolivia has recently faced difficulties fulfilling its natural gas contracts, and industry observers question whether the national production capacity is able to support a project of this size.

The Importance of Employment

¶4. (C) Most of the celebrations surrounding the signing of the contract have focused on employment creation: Mutun is located in one of the poorest areas of the country, and in 2006 local villagers took government officials hostage in an attempt to force the GOB to allow industrialization of the project (the Bolivian army later freed the captured officials.) President Morales' government has been under significant local pressure to obtain a contract with Jindal, which may explain the generous gas subsidies. Press reports have focused less on the other major source of GOB funding which will subsidize the project: rail and road infrastructure at an estimated cost of USD150 million.

Viability Doubts

¶5. (C) In a conversation with Emboff on July 26, a number of Bolivian mining experts discussed their doubts about the project, listing the following potential problems:

(a) There has been no rigorous study of the reserves at Mutun and therefore Jindal may have bid without full knowledge of what they were getting. Additionally, an observer who had previously passed up developing the project wondered if Jindal was aware of the presence of phosphorus in the ore, something that he suggested could be very difficult to deal with in the concentration and smelting phases.

(b) There has been no Environmental Impact Study (ironically, since an earlier project was blocked by President Morales for its supposed potential for environmental damage.)

(c) There has been no feasibility study for natural gas provision. The assembled observers all expressed strong doubts as to whether the GOB could manage to produce the natural gas and provide it to Jindal with the necessary consistency.

(d) There has been no economic study for the marketing of the final product. Considering the location's isolation and infrastructure limitations, getting the product to market could be difficult. A number of press reports have noted that Jindal does not have potential buyers lined up yet.

(e) With the GOB drafting a new mining code and proposing higher taxes, the assembled observers also questioned why Jindal would want to sign an agreement with the legal situation still so uncertain. Although President Morales has declared that the GOB will offer Jindal "judicial security", the tone of a July 26th Amcham meeting on competitiveness in the Bolivian mining sector (excepting the GOB speaker) was grim. The proposed draft mining code would require all companies to enter into joint ventures with the Bolivian Mining Corporation (COMIBOL) with COMIBOL having at least a 51 percent presence. In addition, the Bolivian Mining Association estimates that the new tax proposals could raise the effective tax rate in Bolivia to over 70 percent, and President Morales and his ministers have made statements about nationalizing various mining projects (refs A and B.)

Comment

¶6. (C) Although the contract between the GOB and Jindal may in fact be the windfall for Bolivia that President Morales claims, a number of aspects of the situation raise questions. However, even if the contract is weak, it is likely to be approved since Congress will look like the bad guy if they do not allow the project, with its popular creation of jobs, to go forward. End comment.
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